

File
QUEENSTON



**ANNUAL
REPORT
1979**

QUEENSTON GOLD MINES LIMITED

CORPORATE INFORMATION

| | |
|-----------------------|---|
| DIRECTORS | Walter F. Atkins, Toronto, Ontario Robert G. Brawn, Calgary, Alberta Eric Connelly, Calgary, Alberta R. Michael Gray, Toronto, Ontario Vance Kenneth Travis, Calgary, Alberta |
| OFFICERS | Vance Kenneth Travis, Chairman of the Board R. Michael Gray, President Erica E. Goring, Secretary William J. Muns, Treasurer |
| TRANSFER AGENT | Crown Trust Company Toronto, Ontario |
| STOCK EXCHANGE | Montreal Stock Exchange (Symbol Que) |
| AUDITORS | Deloitte Haskins & Sells Toronto, Ontario |
| HEAD OFFICE | Suite 908 40 University Avenue Toronto, Ontario M5J 1T1 (416) 977-7301 |
| COUNSEL | Day, Wilson, Campbell Toronto, Ontario |
| BANK | Royal Bank of Canada Main Branch Toronto, Ontario |
| ANNUAL MEETING | April 14, 1980 Royal York Hotel Toronto, Ontario |



REPORT TO SHAREHOLDERS

The recent dramatic increase in the price of gold to a record high of U.S. \$855 per ounce is of great importance to Queenston's gold prospects in northeastern Ontario and northwestern Quebec. If, as now seems probable, the current price is realistic and therefore can be expected to maintain or improve its relative position with respect to the prices of other goods and services, Queenston will be in a position to consider underground exploration and development of known and potential reserves at the Upper Beaver and Upper Canada Mines which have been inactive since 1972. Specific studies to investigate the possibilities of production are now in progress. The accompanying Financial Statements for the period ending December 31, 1979 and the accompanying technical reviews illustrate Queenston's current position and its potential for exploration and gold production.

In 1979 the Company changed its year end to December 31st. Accordingly, in the 1979 Financial Statements, it should be noted that these results cover a 15-month period while the 1978 results cover a 12-month period ending September 30, 1978. The general location of Queenston's principal land holdings are illustrated on Plates 1 and 2. Details concerning the forthcoming annual meeting to be held on April 14, 1980, in Toronto, are set out in the accompanying notice, information circular and proxy.

1979 Highlights and 1980 Plans

During 1979 Queenston had a combined income of \$390,025 (\$138,175)*. Exploration and administrative expenditures totalled \$350,978 (\$148,590). Working Capital at the end of the year was \$45,882 (\$6,835) and investments had a market value of \$559,925 (\$273,210). The value of these investments on market closing March 4, 1980 was \$1,084,875.

GOLD ROYALTY payments to Queenston from the Gracie-East Property production increased to \$354,374 in 1979 while proven and probable reserves increased to 112,267 tons, averaging 0.50 ounces gold per ton. Production should continue through 1980 at approximately 2,700 tons per month, and increased royalty payments are anticipated with increased gold revenues received by the Macassa mine.

THE CANADIAN NICKEL COMPANY LIMITED (CANICO) and CAMFLO MINES LIMITED continued active exploration during 1979 on properties under option from Queenston. On the Kirkland Lake CANICO PROJECT, expenditures of \$242,945 were incurred completing ground surveys and a 10,420 foot drill programme. Results of this programme will be available to Queenston by March

* Comparative figures for 1978 are bracketed.

31st, 1980. It is understood Canico intends to expend approximately \$300,000 in 1980, again mainly on diamond drilling. Camflo Mines Limited completed detailed ground geophysical surveys on Queenston's Pandora Property, located in Cadillac Township, Quebec, 10 miles west of Camflo's operating gold mine-mill complex. Camflo is pursuing an aggressive exploration programme with two drill rigs currently in operation on the Property. It is anticipated that a minimum of \$250,000 will be spent in the first phase of exploration in 1980.

QUEENSTON'S 1979 EXPLORATION PROGRAMME was centred on the Upper Beaver-Upper Canada Mine-Mill operations, which were shut down in 1972. Specific studies related to rehabilitation of the Upper Canada (700 t.p.d.) gold-copper mill, and to dewatering and rehabilitation of the Upper Beaver Mine System were completed and preliminary studies related to the known and potential reserve areas and to the potential operation, exploration and development costs for both mines are continuing. Detailed surface, geophysical and geological surveys with a follow-up diamond drilling programme are also planned for both properties during 1980.

The results of the federal-provincially sponsored GEOSEARCH PROJECT which were released in September, 1979 sparked a large-scale staking rush to the general Kirkland Lake region. Your Company staked a number of target areas revealed by the survey, some of which will be tested by ground geophysics and drilling. Also, during the year a 3,300 foot drill programme tested two target areas in the Gateford Mines Limited, Teck Township Property. Although no favourable assays were obtained from this work, other target areas on the property may be considered for further work in 1980.

When Queenston initiated its 1975 GOLD PROPERTY ACQUISITION PROGRAMME the price of gold averaged approximately U.S. \$165 per ounce. In that year the Company held 50 claims, spent \$33,388 on exploration and had an income of \$170. As of December 31, 1979 when the price of gold reached approximately U.S. \$510 per ounce, the Company held interests in 587 claims, exploration expenditures on its holdings totalled \$518,466 and income totalled \$390,025. This programme gives Queenston an enviable property and income position from which it may explore, discover and ultimately recover gold. In 1980 it is expected that Queenston and its partners will expend a minimum of one million dollars on surface exploration of your Company's properties. With positive results from the current mine studies, an additional underground exploration and development expenditure may also be recommended. Queenston's 1980 surface programme will be financed with the Company's current resources and income. Various financing sources for the possible underground programme are currently being investigated.

The early 1980's should be a most eventful period in the Company's history and with continued good fortune Queenston may see its first gold production. The



Directors and Management of your Company are pursuing an aggressive but practical course and will issue quarterly reports on this programme as it develops.

Queenston continues to hold INVESTMENTS in Bankeno Mines Limited and Turbo Resources Limited which at December 31st, 1979 had a combined market value of \$559,925. In late 1979 Cominco Ltd. announced that the development of the Polaris zinc-lead mine on Little Cornwallis Island, NWT would proceed, with production expected to commence early in 1982. By a 1979 Agreement, Bankeno may acquire a 25% royalty interest in the total net production of the mine. Turbo Resources Limited continues to show record growth and profit levels from its integrated oil and gas production, manufacturing, exploration and drilling operations.

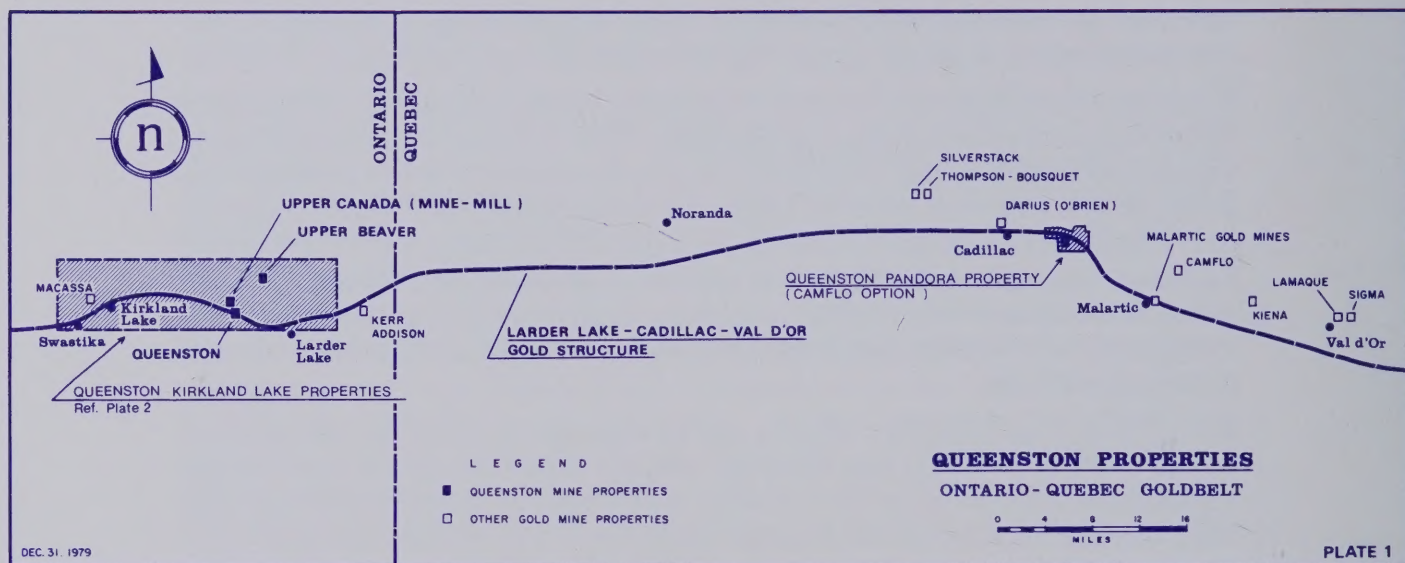
At this time, your Directors wish to record their appreciation for the valuable advice of Mr. J. W. Killick who resigned from the Board during the year. Similar appreciation is extended to the company staff, consultants and contractors who have ably assisted Queenston Management in the undertaking of its recent land development and exploration programmes.

Respectfully submitted
On behalf of the Board of Directors

A handwritten signature in blue ink that reads "R. Michael Gray". The signature is stylized, with the first name "R." and last name "Gray" clearly visible.

March 4, 1980
Toronto, Ontario

R. Michael Gray
President



1979 PROPERTY AND OPERATIONS REPORT

At December 31, 1979 Queenston held interests in 587 claims totalling 23,430 acres most of which constituted gold prospects in the general Kirkland Lake area of Ontario (Plates 1 and 2). The Gracie-East property is the only property in production at this time, but the company owns the Upper Canada, Upper Beaver and Pandora Mine Properties which saw significant production in the past and which have potential for renewed production. The Gateford Mines Limited (Crescent and Golden Gate) property at the west end of the Kirkland Lake camp is under option to Queenston. The Kirkland Lake West Property, immediately west of the currently producing Macassa Mine, and the Queenston-Munro Properties, immediately south of the Upper Canada Mine, are considered first priority gold prospects. The company also owns a number of isolated properties in the Kirkland Lake area that were acquired to protect favourable geological or geophysical targets. These can be classified as 'Grassroots' prospects. Queenston is fortunate in owning together with Challenger International Services Ltd., the 700 ton per day gold-copper mill-office complex at the Upper Canada Mine site. The Mill has been idle since 1972, while the office is being used as a base for Queenston's exploration programmes.

For the most part all producing, idle mine and first priority gold prospects have in common at least four key attributes:

1. All are readily accessible by existing roads;
2. All have existing power and water service or are in near proximity to these services;
3. All are within the Ontario-Quebec Gold Belt which can boast of among the best labour force and mine service infrastructure in Canada and
4. All except Kirkland Lake West and Munro Properties have been developed to varying degrees with underground workings.

These points in particular, tied with the value of the idle but intact gold-copper mill, place Queenston in an excellent position to initiate gold production albeit if sufficient gold reserves can be outlined for mill feed. The following property descriptions outline the progress that is being made in this latter regard particularly.



PRODUCING MINE PROPERTY

The Gracie East Property

This property owned jointly with Willroy Mines Limited is subject to an agreement with Willroy, the operator, whereby Queenston receives royalty payments based on the gold derived from this property, the average price of gold sales and the average cost of gold produced at the Macassa mine. The property has been developed from the adjoining mine workings and has established eight mining levels at depths from 5,300 to 6,300 feet. All ore is recovered through the Macassa mine system and processed in the Macassa mill. Production over the fifteen month period ending December 31, 1979 was 47,410 tons of ore from which were recovered 21,366.22 ounces of gold. Total royalty paid to Queenston was \$354,374.

Reserves on the property at December 31, 1979 as stated by Willroy Mines Limited were:

| | 1979 | | 1978 | |
|--------------------|---------|------------------------------|--------|------------------------------|
| | Tons | Grade oz. gold per ton | Tons | Grade oz. gold per ton |
| Proven | 61,022 | 0.501 | 63,316 | 0.43 |
| Probable | 51,245 | 0.491 | — | — |
| Indicated | — | — | 34,700 | 0.49 |
| Combined (Wt. Av.) | 112,267 | 0.5 | 98,016 | 0.45 |

The increase in reserves is the result of a development programme initiated by Macassa in 1977. Reserve potential at depth will be investigated this year by a drive onto the property on the 6450 level. It is expected that production will continue at the rate of about 2,700 tons per month and that royalties will increase as a result of the higher average price of gold sales.

IDLE MINE PROPERTIES

Upper Canada Mine

This mine was closed down in 1971 after 34 years of continuous operation and the production of more than one and one-half million ounces of gold. The property which comprises 44 claims was developed to a depth of 6,325 feet through two surface shafts and an internal winze. The principal ore structure known as the 'L' zone contributed three-quarters of this production, the balance coming from six other zones.

On closing in November, 1971, reserves of 48,227 tons grading 0.34 ounces per ton were carried on the mine books. A review of diamond drilling data in 1976 indicated the possibility of 200,000 tons of average grade in the 'L' zone if the ore structures were continuous to 500 feet below the bottom (6150) level. In the 'C' zone some 50 drill intersections and drifting on two levels indicated a gold bearing zone 300 feet long extending from above the 1750 level to below the 2750 level. Assays over mining width average 0.24 oz./ton (uncut). Further development will be required to establish continuity, tonnage and average gold content.

Reassessment of the property in the light of new information has indicated untested ore possibilities which will be investigated. Surface mapping, geophysical surveys and diamond drilling are planned for 1980.

The 700 ton per day cyanide mill and the 300 ton per day copper circuit are intact. Reactivation of the mill would require extensive rehabilitation including conversion to 60 cycle electrics but would be much less expensive than a new mill.

Upper Beaver Mine Property

The Upper Beaver mine was operated intermittently from 1919 to 1928 as Argonaut Gold Mines Limited and was operated continuously from 1965 to 1972 by Upper Canada Mines Limited. During the latter period, 427,000 tons of ore grading 0.25 oz. per ton gold and 1.28 per cent copper were produced. The mine is developed to a depth of 1,250 feet by a two compartment surface shaft and a two compartment internal winze. The property consists of 35 claims located four miles northeast of the Upper Canada Mine and is accessible by an existing gravel road. The power line and substation remain intact.

At the time that mining ceased in 1972, ore reserves were recorded as 75,750 tons grading 0.24 oz. gold per ton and 1.34 per cent copper comprising, for the most part, sills and remnants commonly extending no more than 25 feet from the existing workings. It would be reasonable to expect that in many instances ore boundaries would extend beyond these arbitrarily assigned limits. Lower grade zones and isolated drill intersections which were not of economic interest in 1972 are possible sites of additional ore. A detailed surface magnetic survey has located anomalous areas which warrant further exploration.

Preliminary studies to estimate the cost to dewater the mine and to rehabilitate the mine and the mill are completed or in progress and will culminate in an assessment of the economics of production from presently indicated resources.

Pandora Mine Property

The Pandora Property encompasses the extension of the Larder Lake-Cadillac-Val d'Or Gold Structure in this region, 4 miles on strike to the east of the Darius "O'Brien" Gold Mine and 10 miles northwest from the 'Malartic Gold Mines'. The property has been developed at 4 separate shaft locations; No. 1 (100 feet), No. 2 (520 feet), No. 3 (825 feet) and No. 4 (525 feet), with the No. 2-3 locations, on the Gold Break Structure, the most productive. Operations between 1939 and 1942 produced 196,929 tons grading 0.16 oz. gold per ton. The property remained idle from the mid 1940's until 1974 when a new zone of gold mineralization was indicated by surface drilling in the vicinity of the No. 3 shaft. A review of this zone in 1978 together with the results of past operations along the Gold Break Structure suggests a good potential exists of discovering a large zone of low grade gold mineralization in this portion of the property.

By an agreement dated September 7, 1979, Camflo Mines Limited has an option to acquire a 75 per cent interest in the Pandora property in return for cash payments totalling \$150,000 and exploration of \$1,725,000 to be carried out prior to December 31, 1986.

Camflo is pursuing an aggressive exploration programme to evaluate the new zone of mineralization. Geophysical and geochemical surveys over much of the property have been completed and two drill rigs are now operating on an initial programme of ten thousand feet of surface drilling. Initial results from this work have been encouraging. It is expected that at least \$250,000 will be spent on exploration in 1980.

Gateford Mine Property (Crescent — Golden Gate)

Under an agreement dated March 7, 1978, Queenston has the option to purchase this property for \$148,500 in cash and \$500,000 to be spent on exploration prior to May 23, 1984. Expenditures to date are \$55,000 and an additional \$75,000 must be spent by May 23, 1980.

The property encompasses the projected western extension of the Larder Lake gold structure and lies south and east of the town of Swastika. The area has been actively explored since 1906 and numerous gold occurrences have been reported. Principal developments are the Crescent and Golden Gate mines. The former was developed to a depth of 650 feet. The Golden Gate shaft was sunk to a depth of

QUEENSTON



925 feet and approximately 100,000 tons of ore in the range of 0.20 to 0.30 ounces gold were obtained from intermittent production.

Queenston has completed a limited programme of reconnaissance mapping and geophysical surveys and has drilled a total of 2,110 feet in three holes to test for extensions of known gold occurrences.

FIRST PRIORITY PROSPECTS

Canico Project

The Canadian Nickel Company (Canico) by an agreement with Queenston Gold Mines Limited dated April 28, 1976, acquired an option to purchase a 65 per cent interest in certain mineral properties in return for a cash payment of \$100,000 and an undertaking to expend a total of \$2,650,000 on exploration prior to December 31, 1983. Expenditures to date are in excess of \$1,000,000 and it is expected that \$300,000 will be spent in 1980.

The mineral properties comprise the former Queenston and Munro properties located east of Kirkland Lake and south of the Upper Canada Mine, together with the Stalmack and Biroco properties which were optioned subsequently by Canico and in which Queenston may acquire a pro rata interest. The current total area of interest is 116 claims. The properties are favourably located covering a strike length of five miles or more of the stratigraphic horizons and structures which are related to gold occurrences in the Larder Lake area. Previous Queenston drilling and underground development at the Anoki and Queenston shafts have indicated some 83,000 tons grading 0.157 ounces in gold at the Anoki and 255,000 tons grading 0.136 ounces in gold at the Queenston shaft. The objective of the 1980 programme is to locate extensions or recurrences of similar wide zones of gold mineralization of economic size and tenor.

Since 1976, Canico has completed extensive geophysical surveys and geological mapping, augmented by 93 reverse circulation drill holes, to determine bedrock geology in areas of heavy overburden. Twenty core drill holes totalling 26,041 feet have been drilled since 1976. The initial drilling provided useful geological data and located two gold bearing zones of possible economic significance. The results of the most recently completed drill programme will be available to Queenston by March 31, 1980 and will be reported to shareholders in the first quarterly report.





Kirkland Lake West Project

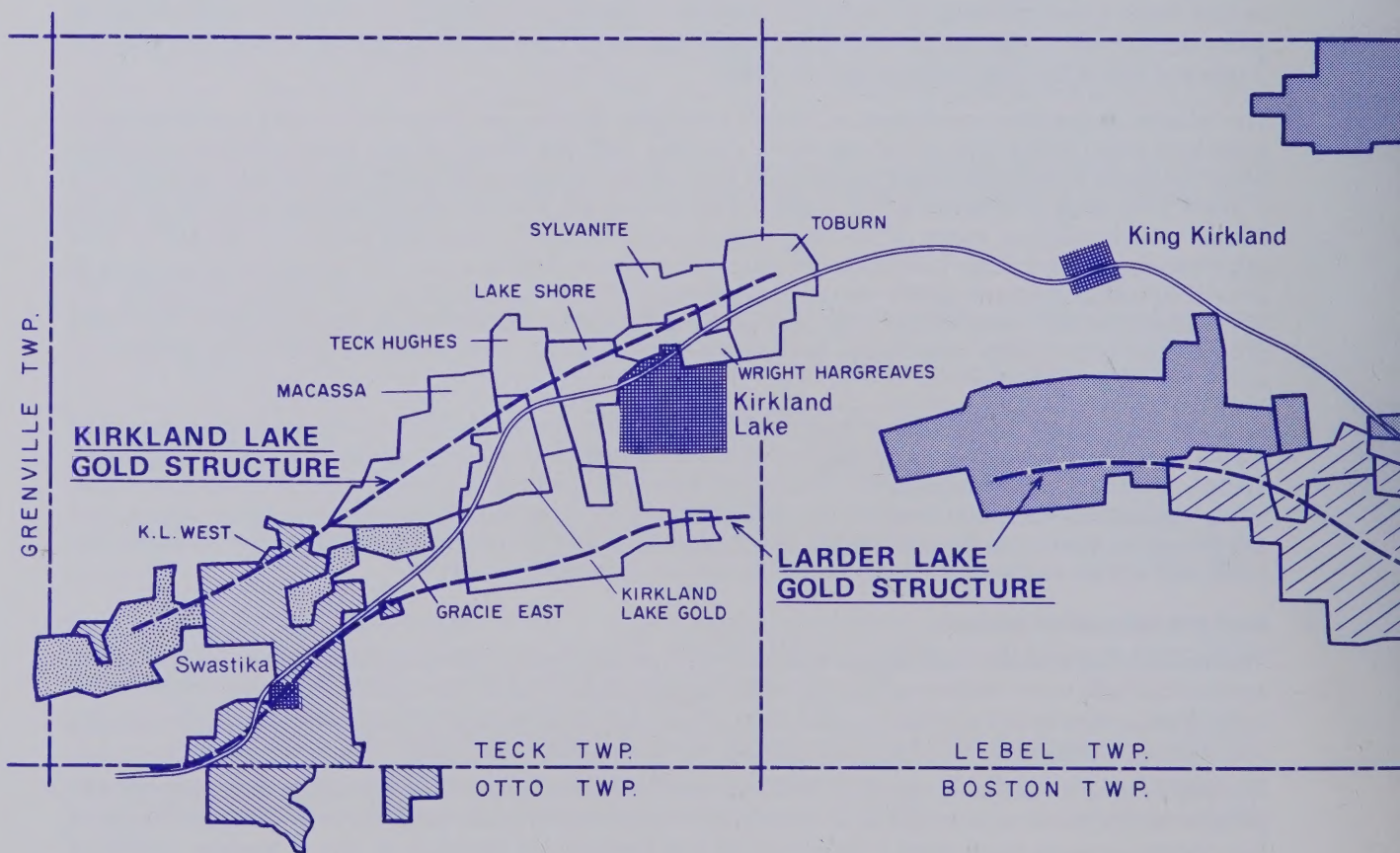
This project looks to the exploration and development at depth of the presumed westward raking ore zones which occur on neighbouring claims to the east. The property includes the claims of the Kirkland Lake West property and contiguous ground covering a mile or more on strike of the main Kirkland Lake ore structure westward from the mine operations on the Macassa-Tegren property boundary.

Early drilling to a maximum depth of 600 feet confirmed the western continuation of geological and structural conditions similar to those which characterize the Kirkland Lake 'Main Break' gold structure but mineralized sections were narrow and of low grade. The absence of ore at shallow depths is characteristic of the adjoining claims to the east. However, as noted, the Gracie-East property has developed significant production from below four thousand feet. Various alternatives are being considered for the investigation of the Kirkland Lake 'Main Break' Structure on the property.

March 4, 1980
Toronto, Canada

QUEENSTON GOLD MINES LIMITED PROPERTY INTERESTS

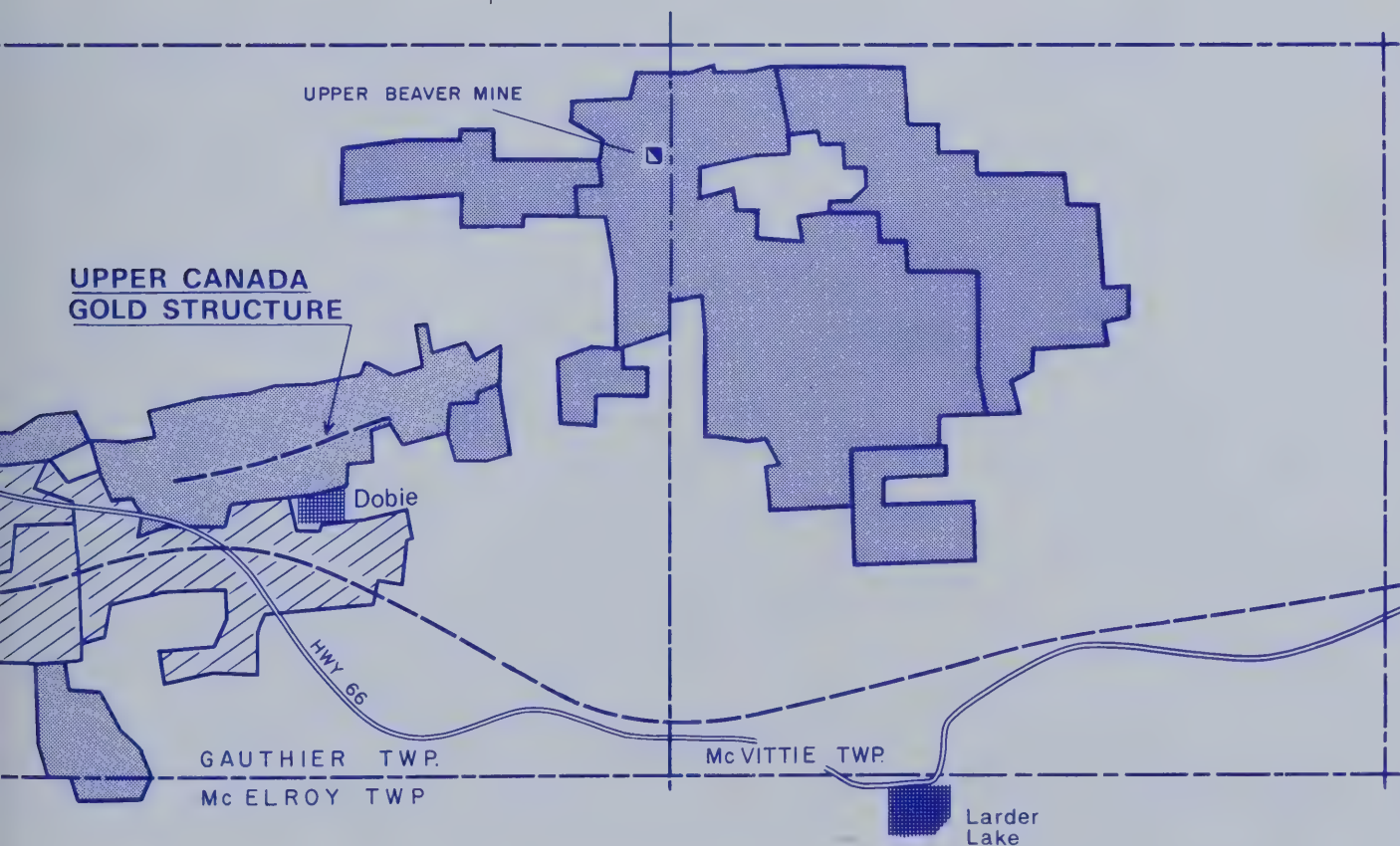
-  CANICO PROJECT
-  KIRKLAND LAKE WEST PROJECT
-  QUEENSTON - WILLROY PROPERTIES
-  OTHER PROPERTY INTERESTS



PRODUCTION: KIRKLAND LAKE GOLD STRUCTURE (1913 TO 1978 - 311 MINE YEARS)

Approximately 50,250,000 tons
 22,600,000 gold ounces

DEC. 31. 1979



QUEENSTON GOLD MINES LIMITED

PROPERTY LOCATION MAP

KIRKLAND LAKE AREA - ONTARIO



QUEENSTON GOLD MINES LIMITED

(Under The Business Corporations Act, Ontario)

BALANCE SHEET AS AT DECEMBER 31, 1979

(with September 30, 1978 figures for comparison)

ASSETS

| | December 31, 1979 | September 30, 1978 |
|---|----------------------|-----------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 4,463 | \$ — |
| Accounts receivable | 106,061 | 48,728 |
| Prepaid expenses | 990 | — |
| Total current assets | 111,514 | 48,728 |
| INVESTMENTS (market value 1979 — \$559,925; 1978 — \$273,210) (Note 2) | 274,759 | 274,759 |
| MINING PROPERTIES (Note 3) | 784,618 | 784,618 |
| DEFERRED EXPENDITURES | 1,227,580 | 1,266,627 |
| TOTAL | <u>\$ 2,398,471</u> | <u>\$ 2,374,732</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Bank indebtedness | \$ — | \$ 7,876 |
| Due to associated company | 34,222 | 12,628 |
| Accrued charges | 31,410 | 21,389 |
| Total current liabilities | <u>65,632</u> | <u>41,893</u> |
| CONVERTIBLE NOTE PAYABLE TO ASSOCIATED COMPANY (Note 5) | <u>193,800</u> | <u>242,250</u> |
| SHAREHOLDERS' EQUITY: | | |
| Share capital (Note 6) | 2,123,871 | 2,075,421 |
| Retained earnings (unchanged during the period) | 15,168 | 15,168 |
| Total shareholders' equity | <u>2,139,039</u> | <u>2,090,589</u> |
| TOTAL | <u>\$ 2,398,471</u> | <u>\$ 2,374,732</u> |

Approved by the Board:

V. K. TRAVIS, Director

R. MICHAEL GRAY, Director

The accompanying notes are an integral part of the financial statements.



STATEMENT OF DEFERRED EXPENDITURES
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 1979
(with figures for the twelve months ended September 30, 1978 for comparison)

| | 1979 (fifteen months) | 1978 (twelve months) |
|--|-----------------------------|----------------------------|
| EXPLORATION AND DEVELOPMENT: | | |
| Exploration costs | \$ 99,128 | \$ 14,844 |
| Consulting fees | 81,931 | 29,306 |
| Realty taxes | 10,357 | 7,382 |
| Salaries | 64,766 | 23,000 |
| Expenditures for the period | 256,182 | 74,532 |
| Less related income: | | |
| Royalty | 354,374 | 118,867 |
| Rentals, options and miscellaneous | 35,651 | 19,308 |
| Decrease for the period | (133,843) | (63,643) |
| Balance at beginning of the period | 919,722 | 983,365 |
| Balance at end of the period | 785,879 | 919,722 |
| HEAD OFFICE AND ADMINISTRATION: | | |
| Interest | 16,768 | 14,432 |
| Legal and audit | 20,977 | 17,667 |
| Management fee | — | 1,167 |
| Office and accounting | 10,941 | 2,467 |
| Ontario capital tax | 8,546 | 1,864 |
| Printing and stationery | 7,277 | 5,780 |
| Salaries | 21,589 | 17,716 |
| Transfer agent and registrar | 4,820 | 6,650 |
| Travel | 3,878 | 6,315 |
| Increase for the period | 94,796 | 74,058 |
| Balance at beginning of the period | 346,905 | 272,847 |
| Balance at end of the period | 441,701 | 346,905 |
| TOTAL DEFERRED EXPENDITURES | \$ 1,227,580 | \$ 1,266,627 |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 1979

(with figures for the twelve months ended September 30, 1978 for comparison)

| | 1979 (fifteen months) | 1978 (twelve months) |
|--|-----------------------------|----------------------------|
| WORKING CAPITAL PROVIDED: | | |
| Royalty income | \$ 354,374 | \$ 118,867 |
| Sundry income | 35,651 | 19,308 |
| Issue of share capital (Notes 5 and 6) | 48,450 | 300,000 |
| Total | <u>438,475</u> | <u>438,175</u> |
| WORKING CAPITAL APPLIED: | | |
| Exploration and development expenditures | 256,182 | 74,532 |
| Head office and administration expenditures | 94,796 | 74,058 |
| Acquisition of mining properties | — | 161,000 |
| Reduction of note payable to associated company (Notes 5 and 6) | 48,450 | — |
| Total | <u>399,428</u> | <u>309,590</u> |
| INCREASE IN WORKING CAPITAL | 39,047 | 128,585 |
| WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE PERIOD | 6,835 | (121,750) |
| WORKING CAPITAL AT END OF THE PERIOD | <u>\$ 45,882</u> | <u>\$ 6,835</u> |

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
Queenston Gold Mines Limited:

We have examined the balance sheet of Queenston Gold Mines Limited as at December 31, 1979 and the statements of deferred expenditures and of changes in financial position for the fifteen months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 9, 1980
Toronto, Canada

Deloitte Haskins & Sells
Chartered Accountants

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES:

Mining properties

Mining properties include the cost of acquisition of patented and unpatented claims, buildings, leases and agreements, and are recorded at cost. These costs will be amortized against income if the properties are brought into commercial production or charged against retained earnings, if the properties are sold or abandoned.

Deferred expenditures

It is the policy of the company to defer all such expenditures less related income and recoveries. These costs, substantially all of which relate to properties in the Kirkland Lake area of Ontario, will be amortized against income if the properties are brought into commercial production or charged against retained earnings, if substantially all of the interests in this area are sold or abandoned.

Investments

Investments are recorded at cost unless there has been a permanent decline in their value, in which case the investments are written down to recognize the loss.

2. INVESTMENTS:

Investments consist of the following:

| | 1979 | | | 1978 | | |
|-------------------------------------|--|-------------------|-------------------|--|-------------------|-------------------|
| | Number of Shares or Warrants | Cost | Market Value | Number of Shares or Warrants | Cost | Market Value |
| Turbo Resources Limited: | | | | | | |
| Class B | | | | | | |
| common | 2,500 | \$ 5,859 | \$ 44,375 | 2,500 | \$ 5,859 | \$ 16,875 |
| Warrants | 2,500 | — | 30,000 | 2,500 | — | 7,125 |
| Bankeno Mines Limited | 117,000 | 266,900 | 485,550 | 117,000 | 266,900 | 249,210 |
| Laberada Mines Limited | 750,000 | 2,000 | No market | 750,000 | 2,000 | No market |
| | | <u>\$ 274,759</u> | <u>\$ 559,925</u> | | <u>\$ 274,759</u> | <u>\$ 273,210</u> |

The shares of Bankeno Mines Limited are lodged with a Canadian chartered bank as security for the company's line of credit with the bank. The shares of Laberada Mines Limited represent a 25% interest in that company which owns 42 mining claims in the Kirkland Lake area, Ontario.

3. MINING PROPERTIES:

Mining properties consist of:

| | |
|---|-------------------|
| (a) 477 wholly-owned mining claims and 47 mining claims held under various option agreements all in the Kirkland Lake area, Ontario and the Cadillac area, Quebec and a 50% interest in 19 mining claims, subject to a royalty agreement with Willroy Mines Limited | \$ 764,618 |
| (b) The Upper Canada mine and mill buildings, Dobie, Ontario | 20,000 |
| | <u>\$ 784,618</u> |

4. INCOME TAXES:

Under the provisions of the Income Tax Act, exploration and development expenditures are deductible in determining taxable income. Any expenditures not deductible in a given year may be carried forward and applied against future income. The company has approximately \$455,889 of expenditures so available. In addition, the company has losses for tax purposes of approximately \$17,200 which may be carried forward until 1981 to reduce future taxable income after application of all exploration and development expenditures.

5. CONVERTIBLE NOTE PAYABLE TO ASSOCIATED COMPANY:

The note payable of \$193,800 bears interest at the rate of 6% per annum, is repayable as to principal of \$24,225 annually at November 25 plus interest and is convertible as to principal annually in the amount of \$24,225 into shares of the company at 15 cents per share. During the fifteen months ended December 31, 1979, the first two instalments due were converted into 323,000 shares.

6. SHARE CAPITAL:

Share capital consists of the following:

| | 1979 | 1978 |
|--|---------------------|---------------------|
| Authorized shares, without par value | 10,000,000 | 10,000,000 |
| Issued and fully paid | 7,023,000 | 6,700,000 |
| Paid up capital | <u>\$ 2,123,871</u> | <u>\$ 2,075,421</u> |

During the fifteen months ended December 31, 1979, 323,000 shares were issued upon the conversion of \$48,450 of the note payable to the associated company, as described in Note 5.

On June 29, 1978, the Board of Directors approved a stock option plan for employees of the company under which 335,000 authorized and unissued shares were allocated for a period of up to five years to be optioned upon approval by the Board of Directors at a price not less than the market value on the day the options are granted, less the maximum discount allowed by the Montreal Stock Exchange. At December 31, 1979, no options had been so approved by the Board of Directors.



7. EXPLORATION AGREEMENTS:

The major exploration agreements entered into by the company are as follows:

Canadian Nickel Company Limited

The company and Canadian Nickel Company Limited (Canico) have entered into an agreement whereby Canico has the option to earn up to a 65% undivided interest in a group of claims owned by the company in the Kirkland Lake area, Ontario. The terms of the agreement provide that Canico make a cash payment of \$100,000 to the company and incur exploration expenditures on the claims totalling \$2,650,000, which amounts are due at various dates up to December 31, 1983. Canico has complied with the terms of the agreement up to December 31, 1979. Subsequent to December 31, 1983, the agreement provides for Canico to make further option payments or expenditures until a feasibility report for production has been prepared, at which time production financing must be made on a pro rata basis, or the deficient party's percentage of ownership will be decreased. Also, under the agreement, Canico has acquired, or holds under option, certain mining claims in which Queenston could earn a 35% interest.

Gateford Mines Limited

The company has entered into an option agreement to purchase 25 mining claims in the Kirkland Lake area, Ontario, from Gateford Mines Limited. The terms of the agreement provide that Queenston make cash payments totalling \$148,500 to Gateford Mines Limited and incur exploration expenditures on the claims totalling \$500,000, which amounts are due at various dates up to May 23, 1984. If any part of the property is brought into production, the company is required to pay a royalty to Gateford Mines Limited. The company has complied with the terms of the agreement up to December 31, 1979.

Camflo Mines Limited

During the period ended December 31, 1979, the company entered into an agreement with Camflo Mines Limited (Camflo) whereby Camflo has the option to earn up to a 75% interest in 36 claims owned by the company in Cadillac Township, Quebec. The terms of the agreement provide that Camflo make cash payments totalling \$150,000 to the company and incur exploration expenditures on the claims totalling \$1,725,000, which amounts are due at various dates up to December 31, 1986. Camflo has complied with the terms of the agreement up to December 31, 1979. Subsequent to December 31, 1986, the agreement provides for Camflo to make further optional payments or expenditures until a feasibility report for production has been prepared, at which time production financing must be made on a pro rata basis, or the deficient party's percentage ownership will be decreased.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Remuneration of directors and senior officers, as defined by The Business Corporations Act, Ontario, was \$82,254.

9. CHANGE IN YEAR END:

The company has changed its fiscal year end from September 30 to December 31, effective December 31, 1979.

10. PRIOR YEAR'S FIGURES:

Certain of the 1978 figures, provided for the purpose of comparison, have been reclassified to conform with the 1979 presentation.

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QUEENSTON



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